



Fifth Annual LMOP Conference and Project Expo


Banking on the Green Power Premium:
An Investor's Perspective

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Green Premiums: A Historical Perspective

- Federal Programs: Tax Credits/Green Rulings
 - Section 29 & 45 Synthetic Fuel/Wind/Closed Loop
 - California IOU FERC Ruling
- State Programs: Direct Subsidy/Reliable Rates
 - California
 - Standard Offer Contracts 1984
 - Transitional Support for Renewables 1996
 - Illinois
 - Retail Rate Law 1992 (Tax Free Loans)



Definitional Perspective: What is Green Power?

- No Widely Accepted Standard
- State Green Incentive Programs
 - What's Green in Maine is not in Connecticut
 - Is it Green based on where it produced or sold?
- Green-e Program
 - Great for Consumers
 - Will States buy it?

What Constitutes a Green Power "Premium" ?

• Federal Premiums:

- Section 29 Tax Credits not Available for New Projects
 - Uncertain Future for Re-authorization
- Section 45 Tax Credits expire December 31, 2001
 - 2 Year Extension Proposed in House ESP and 1 Year Extension in Senate Bill
- Bush Energy Plan
 - Includes Several Incentives for Green Power
 - Action on Plan Unlikely in Near Future
 - Energy Crisis?....What Energy Crisis?



What Constitutes a Green Power "Premium" ?

• State Tax Credits

- Maryland LFG Project Program
 - Well Intentioned but Unlikely to Work

• State Renewable Energy Programs

- Mandated Renewable Portfolio Standards
 - Should Work if Applied to all Providers
 - Many State RPS Flawed
 - RPS Has not Generated Significant Action
 - California Crisis Impact



What Constitutes a Green Power "Premium" ?

- State Renewable/Clean Energy Funds
 - 17 States Offer Grants/Loans/Investments
 - Good Development Stage Capital Source
 - Capital Limited by Annual Allocation
 - Few Funds Offer Rate/Price Support
 - Structure Fund Investment So not to Preclude Private Sector Investment



What Constitutes a Green Power "Premium" ?

• State/IOU Sponsored Customer Choice Programs

- 85 Programs Around the Country
- Can Offer Fixed Rate PPA's to Producers
- Can Offer Green "Premiums" of .08 to 2.1¢/Kwhr over Brown Power Rates
- Limited by Pace of Transition to Competitive Power Markets and Consumer Demand
 - California Crisis



What Constitutes a Green Power "Premium" ?

- Municipal Utility Green Power Incentives
 - Not Limited by FERC California IOU Decision
 - Not Limited by Deregulation of Consumer Demand
 - Currently One of the Best PPA Choices for Producers
 - Limited # of MUGPI's in Marketplace but Growing



What Constitutes a Green Power “Premium” ?

• Carbon Credits/Emission Offsets

- Market not Well Defined
- Many Sales in Form of “Options” Agreements
- Credit Concerns over Purchasers “Pay-As-You-Go” Agreements
 - Need Creditworthy Purchasers or L/C Support



What Constitutes a Green Power "Premium" ?

• Tradable Renewable Energy Certificates

- Potential to Provide Green Power "Premium" to Producer in Areas Where no Incentive Exists
- Allows Development of Green Projects in Areas Where Resource Exists.
- Market Not Well Defined
- Green Certification Issues
 - State Green Definition Rule



Taking the Green “Premium” to the Bank: What Works and What Doesn’t

⚙ Risks Taken by Project Finance Lenders:

- Production Risk
 - If “Premium” is “Hell-or-High-Water” and “Added” to Energy Production Unit (MM/Btu or Kw/Hr)
- Price Risk
 - If Historical Market Exists and Prices are Somewhat Predictable
- Credit Risk
 - If “Premium” Provider is Credit Worthy



Taking the Green “Premium” to the Bank: What Works and What Doesn’t


- Risks Avoided by Project Finance Lenders:
 - Tax Risk: Both Structure and Change of Law
 - Tax Credit Monetization Must Be HOHW
 - Change of Law Risk
 - Texas Green Premium Problem
 - Regulatory Risk
 - Incentive “Pass-Through” Problem



Taking the Green “Premium” to the Bank: What Works and What Doesn’t


⚙ “Options” Risk

- Risk that “Option” Will be Exercised




What's All This Mean To The LFG T0 Energy Project Developer ?

- Support Federal Tax Credits for Renewables
 - Tax Monetization Provides Great "Premium"
- Support State Renewable Energy Programs Which Work
 - Direct Subsidies...Not State Tax Credits
 - RPS Which Apply to All Retail Suppliers
- Seek State Renewable Energy Fund \$'s
 - States Have \$'s to Invest But no Projects
 - State Grants Attract Additional Investment




What's All This Mean To The LFG T0 Energy Project Developer ?

- Support Customer Choice Programs
 - Best Hope for “Premium” Priced PPA's
 - Match Renewable Energy's Ability to Provide Predictable Priced Energy With the Consumer's Demand for Such
 - Switch to “Green” Power on Both a Company and Individual Basis Where CC Exists
 - Set an Example and Stimulate Green Power Demand



What's All This Mean To The LFG T0 Energy Project Developer ?

- Seek Non-IOU Green Power Incentive Programs
 - Best Current Source of Green "Premium"
 - Most PPA's Finance-able
- Investigate Emission Off-Set and Green Tag Market Developments
 - More Market Development is Needed



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